The Case for International Equities

While investing outside of the U.S. has its share of risks, such as political instability and currency fluctuations, international investing can be a smart way to diversify your portfolio and potentially increase your investment returns.

With non-U.S. stocks accounting for roughly 70% of the world’s equity market capitalization, investors who limit their portfolios exclusively to U.S. securities are missing out on the chance to participate in some of the world’s most dynamic investment opportunities.

**Diversification and Growth**

Despite the fact that many of the largest foreign firms are listed on U.S. stock exchanges, the majority of companies aren’t. Although the U.S. stock market has over 6,000 companies valued collectively at approximately $15 trillion, it amounts to only one-third of the value of global equity markets. In addition, many foreign companies now dominate key industries such as semiconductor manufacturing, food products, energy equipment and services, and household durables, among others. So that is precisely why international investing has the potential for higher earnings growth and provides U.S. investors access to many of the world’s most successful businesses.

International investing also offers broad diversification across investment sizes and styles, geographies, and asset classes. Each country and region has its own unique set of attractive investment opportunities based on its stage of economic development, demographics, resources, and other factors. Developed markets, such as the U.S., Japan, and Western Europe, have strong growth prospects in technology and services. Resource-rich nations like Canada, Australia, and Russia are currently enjoying export booms based on oil, gas, minerals, and even agricultural products. As the world benefits from global growth, living standards and affluence levels rise, expanding the ranks of the middle class. Emerging economies such as China, India, and Brazil combine rapidly growing middle classes with purchasing power and economic growth, positively impacting the outlook for earnings growth in their industrial and consumer industries, as well as those of developed markets.

Another benefit of international investing is the potential diversification effects and benefits for U.S. investors resulting from fluctuations in the dollar versus foreign currencies. Even though we do not have strong biases in our portfolios that relate to currency exposure, structural trade and current account deficits have an impact on the value of the dollar and are important considerations when evaluating the investment potential of a particular stock.

**Creating Alpha**

While developed international equity markets have become increasingly correlated to the U.S. stock market, one of the benefits of investing in non-U.S. markets is stock-specific diversification. This allows us to generate alpha by analyzing and selecting stocks on a global sector basis rather than a country-specific basis. In focusing on those companies that are exhibiting improved rates of earnings and revenue growth on a sector-by-sector basis, we attempt to build a portfolio of the best companies in each sector. Employing detailed global industry and company analysis, and global risk management tools, helps us formulate a broadly diversified portfolio of the leading companies outside of the U.S.

**Think Globally**

Due to the unprecedented stimulus efforts by governments around the world and improving business fundamentals, international equities have staged a remarkable comeback from the global economic crisis of 2008-2009. Yet there is still significant investment opportunity to be had within the asset class as a result of the above-average long-term earnings growth potential. Remember, think globally!